

Fubon Research  
 May 18, 2021

## Wah Lee Industrial Corp (3010 TT)

### Investment value emerges

#### Not Rated

Price <b>NT\$71.60</b>	Target <b>N.A.</b>
<ul style="list-style-type: none"> <li>• Visit notes</li> <li>• Company update</li> <li>• Earnings preview</li> </ul>	<ul style="list-style-type: none"> <li>○ Initiating coverage</li> <li>○ Earnings revision</li> <li>○ Rating change</li> </ul>
Share outstanding (mn)	231
Market capital (NT\$mn)	16,570
Market capital (US\$mn)	591
FINI holding (%)	14.30
Local IM holding (%)	0.11
Directors holding (%)	12.34
52-week high (NT\$)	85.40
52-week low (NT\$)	50.68

#### Financial summary

Year-end: Dec 31

NT\$mn	FY20	FY21F	FY22F
Net sales	59,081	67,050	67,995
YoY	8.0%	13.5%	1.4%
Op. profit	2,108	2,898	2,806
YoY	33.9%	37.5%	-3.2%
EBITDA	3,111	3,618	3,549
Net profit	1,859	2,293	2,308
EPS (NT\$)	8.03	9.91	9.97
YoY	31.3%	23.3%	0.7%
DPS (NT\$)	4.00	4.50	4.70
PER (x)	8.9	7.2	7.2
PBR (x)	1.3	1.2	1.1
EV/EBITDA (x)	8.2	7.0	6.9
Div. yield (%)	5.6	6.3	6.6
ROE (%)	14.5	16.6	15.6

Source: Fubon Research

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#### Promising earnings growth in FY21, undemanding valuation, positive share price outlook

- ◆ 1Q21 EPS at NT\$2.58, historical high.
- ◆ Product lines include semiconductor, forward-looking industries, significant core earnings growth.
- ◆ Climbing sales weight of EV, solar, wind power to strengthen ESG; we adopt positive outlook as stock trades at 7-8x FY21F EPS, significantly undervalued.

#### One of Taiwan's major electronic materials distributors

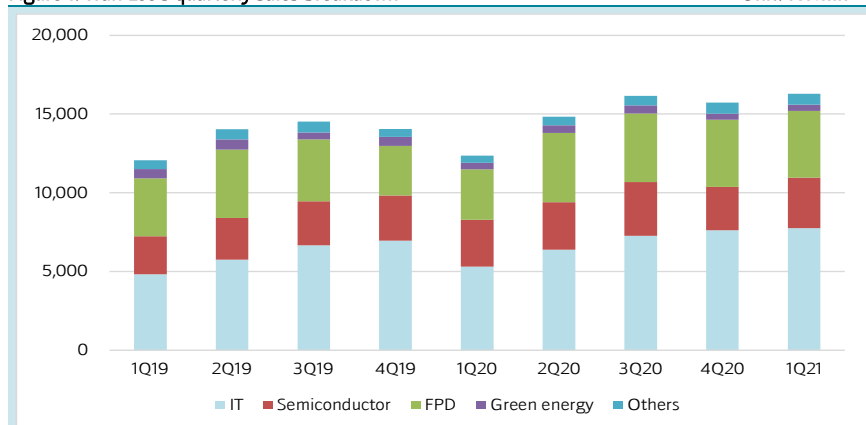
Founded in 1968 and headquartered in Kaohsiung, Wah Lee is primarily engaged in the distribution of semiconductor materials. Applications of its product lines include composite materials, engineering plastics, PCBs, semiconductor, IT, and flat panel displays. In the semiconductor frontend advanced process, Wah Lee is a 1<sup>st</sup>-tier supplier of products such as photoresist strippers, electronics grade chemicals, specialty gases, and CMP slurry. In recent years, the company has developed several niche materials in 5G, EV, biomedicine, green energy, and semiconductor advanced process, including substrates used in stepper and DI dry film, copper clad laminate (CCL), auto engineering plastics, lithium battery materials, biochemistry materials, and hemodialysis pipeline. The company has marketing locations in China, Taiwan, Southeast Asia, and the US. By geography, Taiwan represents 29% of its sales, and China 54%.

#### Semiconductor materials: Wah Lee's distributorship has breadth, depth

Wah Lee's distributorship of semiconductor materials is characterized by breadth and depth, including: 1) photoresist and developer; 2) stripper and remover, 3) chemicals and specialty gases for IC processes, polyimide, chemicals used in CVD processes; 4) CMP slurry, CMP pad, and 5) quartz, Si ring, and precision ceramics module, and high-performance plastics pipe / board materials. In terms of total semiconductor sales, photoresist represents 40-50%, followed by chemicals 20%, and specialty gases 10%. Its customers include domestic and overseas foundry and memory makers in Taiwan.

**Figure 1: Wah Lee's quarterly sales breakdown**

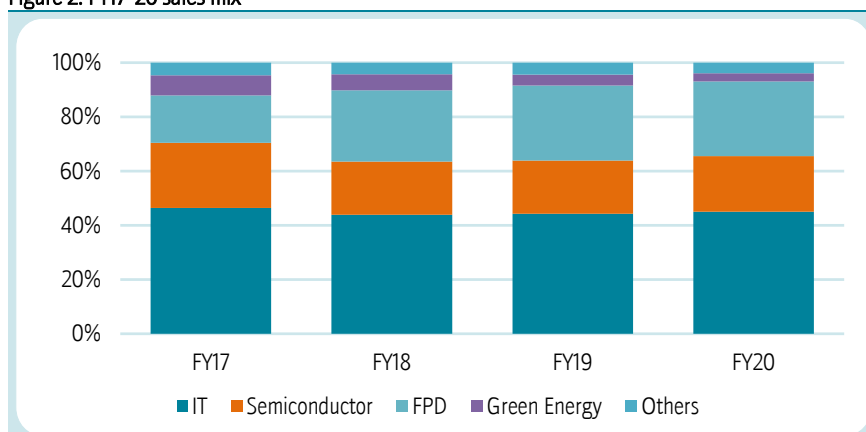
Unit: NT\$mn



Source: Company, Fubon Research

**Stellar core, non-op performance, 1Q21 EPS at NT\$2.58**

Wah Lee reported 1Q21 consolidated sales of NT\$16.28bn, up 3.5% QoQ and 31.8% YoY, of which IT business grew 45.8% YoY, semiconductor grew 8.3% YoY, FPD grew 32.0% YoY, green energy dropped 4.1% YoY, and others grew 51.7% YoY. As for earnings, 2Q21 GM climbed 0.5ppt QoQ to 8.8%, mainly due to higher sales weight of better-GM IT materials, with operating profit of NT\$726mn, pre-tax profit of NT\$874mn, mainly attributed to the non-op gain of NT\$148mn from investment gain accounted for using the equity method, net profit attributable to the parent of NT\$597mn, and EPS of NT\$2.58.

**Figure 2: FY17-20 sales mix**


Source; Company, Fubon Research

**Traditional, forward-looking businesses successfully boost shareholders' equity**

In recent years, Wah Lee has actively added other growth sources and took into account concerns of shareholders and stakeholders in order to successfully raise shareholders' equity. In FY19, the company started developing 5G base station PCB materials as well as plastics and auto and medical high functional materials. These efforts helped establish its currently largest product line (high functional engineering plastics). In the FPD space, it developed downstream modules and applications, such as interactive whiteboard and electronic main board for educational purposes. These products started to boost its sales momentum starting FY18. In addition, it penetrated the solar and wind power industries by focusing on solar power plant investment, which generates stable profitability, and distribution of offshore wind turbine materials. We believe this strategy will help the company enhance ESG and attract international investors.

**FY21 EPS at NT\$9.91**

Driven by semiconductor materials, 5G high-frequency board, and IC substrate materials, we forecast its 2Q21 sales to remain at a high. In FY20, orders of its educational products retreated due to the pandemic. However, with the lifting of lockdowns in Europe and the US this year, orders have returned. Also, the TFT LCD main board market has recovered, which will boost its 2H21 sales. Overall, we forecast FY21 consolidated sales of NT\$67.05bn, up 13.5% YoY. For its power plant business, the income from electricity sales is low but GM is high. Accordingly, we forecast FY21 GM to be 8.4%, with operating profit of NT\$2.89bn, non-op gain of NT\$430mn, net profit of NT\$2.29bn, and EPS of NT\$9.91.

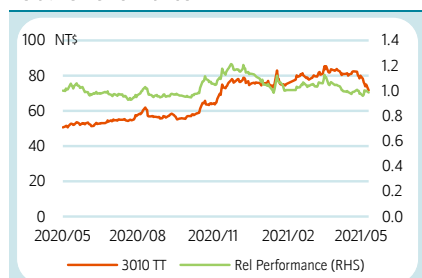


Figure 3: Quarterly operations forecast

									Unit: NT\$m		
	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21F	3Q21F	4Q21F	2020	2021F	2022F
Net sales	12,353	14,836	16,160	15,731	16,284	16,850	17,662	16,254	59,081	67,050	67,995
COGS	11,348	13,641	14,873	14,418	14,845	15,405	16,223	14,910	54,280	61,384	62,375
Gross profit	1,005	1,195	1,287	1,313	1,438	1,444	1,439	1,344	4,801	5,666	5,620
Operating expense	580	649	651	812	712	675	701	680	2,693	2,768	2,814
Operating profit	425	546	636	501	726	769	738	664	2,108	2,898	2,806
Total non-operating	45	70	254	62	138	61	126	105	476	430	453
Pre-tax profit	481	634	904	615	874	830	863	769	2,584	3,328	3,259
Net profit	344	441	636	439	597	555	604	536	1,859	2,293	2,308
EPS (NT\$)	1.49	1.91	2.75	1.90	2.58	2.40	2.61	2.32	8.03	9.91	9.97
<b>Margins (%)</b>	<b>1Q20</b>	<b>2Q20</b>	<b>3Q20</b>	<b>4Q20</b>	<b>1Q21</b>	<b>2Q21F</b>	<b>3Q21F</b>	<b>4Q21F</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>
Gross	8.1	8.1	8.0	8.3	8.8	8.6	8.1	8.3	8.1	8.4	8.3
Operating	3.4	3.7	3.9	3.2	4.5	4.6	4.2	4.1	3.6	4.3	4.1
Net	2.8	3.0	3.9	2.8	3.7	3.3	3.4	3.3	3.1	3.4	3.4
<b>Y/Y %</b>	<b>1Q20</b>	<b>2Q20</b>	<b>3Q20</b>	<b>4Q20</b>	<b>1Q21</b>	<b>2Q21F</b>	<b>3Q21F</b>	<b>4Q21F</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>
Net sales	2.4	5.7	11.0	12.2	31.8	13.6	9.3	3.3	8.0	13.5	1.4
Gross profit	9.5	10.6	11.8	26.9	43.1	20.8	11.8	2.3	14.7	18.0	(0.8)
Operating profit	31.3	27.5	37.6	39.0	71.0	40.9	15.9	32.6	33.9	37.5	(3.2)
Net profit	9.1	28.1	42.2	41.7	73.8	25.9	(5.0)	22.2	31.3	23.3	0.7
EPS	9.1	28.1	42.2	41.7	73.8	25.9	(5.0)	22.2	31.3	23.3	0.7
<b>Q/Q %</b>	<b>1Q20</b>	<b>2Q20</b>	<b>3Q20</b>	<b>4Q20</b>	<b>1Q21</b>	<b>2Q21F</b>	<b>3Q21F</b>	<b>4Q21F</b>			
Net sales	(11.9)	20.1	8.9	(2.7)	3.5	3.5	4.8	(8.0)			
Gross profit	(2.9)	18.9	7.7	2.0	9.5	0.4	(0.4)	(6.6)			
Operating profit	17.8	28.6	16.6	(21.3)	45.0	5.9	(4.1)	(10.0)			
Net profit	11.0	28.3	44.3	(31.0)	36.1	(7.1)	8.9	(11.3)			
EPS	11.0	28.3	44.3	(31.0)	36.1	(7.1)	8.9	(11.3)			

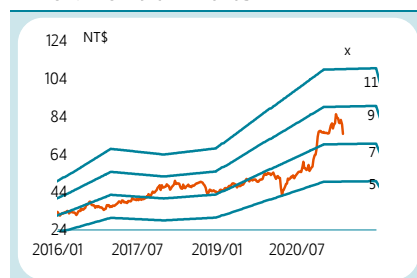
Source: Company, Bloomberg, Fubon Research

**Relative Performance**



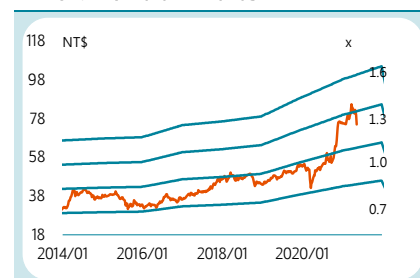
Source: CMoney, Fubon Research

**12-month Forward PE Bands**



Source: CMoney, Fubon Research

**12-month Forward PB Bands**



Source: CMoney, Fubon Research



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## Fubon's Rating System

Rating	Definition
Buy	Expected absolute return to be over 15% within the next 6 months
Neutral	Expected absolute return to be between 15% and -15% within the next 6 months
Sell	Expected absolute return to be higher than -15% within the next 6 months
Not Rated (NR)	Pursuant to Fubon acting in deals involving the company or there is not a sufficient fundamental basis for determining an investment rating
Under Review	Fubon is in the process of determining an investment rating and will assign a rating within the 3- to 6-month horizon

Sector Rating	Definition
Overweight	Sector expected to outperform the broader market indexes within the next 6-12 months
Market Weight	Sector expected to perform in line with the broader market averages within the next 6-12 months
Underweight	Sector expected to underperform the broader market indexes within the next 6-12 months.

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